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Ontario's Strong Economy, Creating Jobs

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Ontario
Economic and
Fiscal Outlook

The Honourable Ernie Eves, Q.C.
Minister of Finance



Ministry of
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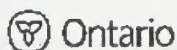
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Ontario's Strong Economy, Creating Jobs

1996 Ontario Economic and Fiscal Outlook

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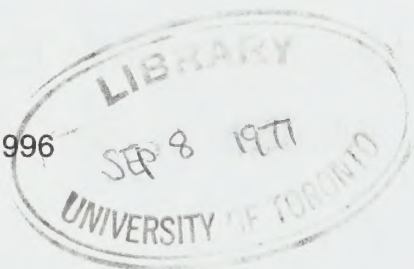
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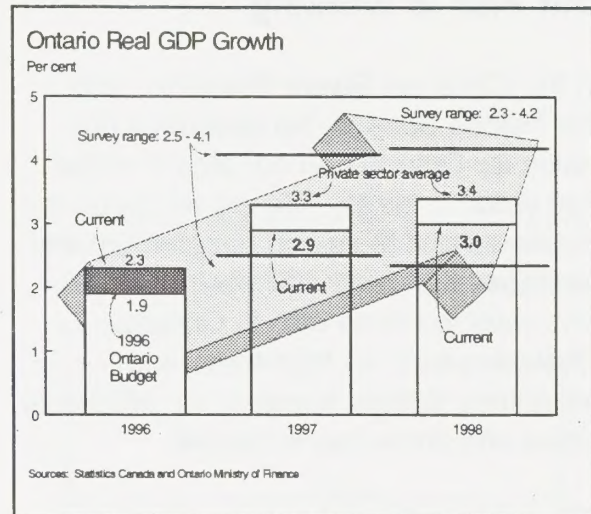
ONTARIO'S STRONG ECONOMY, CREATING JOBS

I am pleased today to present Ontario's 1996 Economic Outlook and Fiscal Review for the information of members of the Legislature and for all Ontarians. Over the last year and a half, the Government has acted to renew the province's economy and get Ontario back to work. Today I am providing a mid-year update on what I believe to be the concrete results of those actions, including an economy that is outpacing the cautious Budget projection of 1.9 per cent growth for 1996 and is now expected to grow by 2.3 per cent this year.

In addition to this Statement, I am releasing a document containing more than 100 pages of additional information focussed on Ontario's economic outlook and fiscal position. This information will be useful to Ontarians in understanding, in detail, the economic and fiscal environment in which we will be preparing the 1997 Budget.

Furthermore, I will also be tabling in the Legislature Ontario's 1996 Open Financial Disclosure Report, which outlines Ontario's financing activities.

This information will, I trust, be useful to those wishing to offer advice or ideas to the Standing Committee on Finance and Economic Affairs, to members of the Legislature or to me, directly, as Minister of Finance, on the measures to be included in the 1997 Budget. As indicated when Ministry business plans were released last April, we want to hear



ideas on how we can become a more efficient, innovative and accountable government. We continue to be open to new and innovative ideas to achieve the objectives we have set as a Province.

Our actions taken to date are producing tangible results and our plan is working for Ontarians.

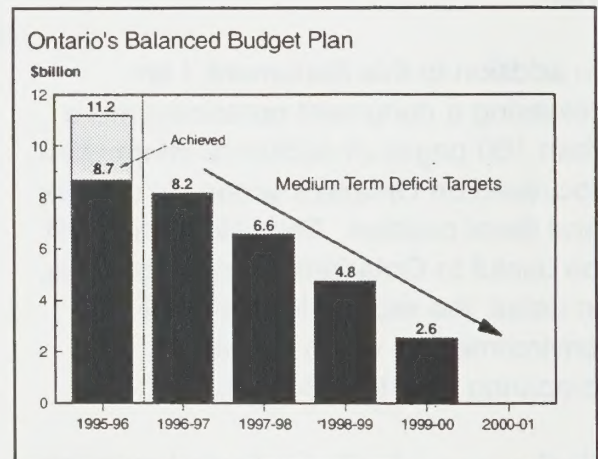
Our Plan is Working

In the *Common Sense Revolution* and the Throne Speech, we described our vision for Ontario and our plan to make that vision a reality. We are removing the obstacles that too much government and red tape have put in the way of people who want to create jobs in Ontario. Obstacles such as high taxes and ballooning deficits threaten our children's future and choke our economy.

When this government took office, we faced a deficit of \$11.2 billion. This meant that the government was spending \$1 million per hour more than it was taking in. In the Budget, we took the necessary actions and cut the deficit this year to \$8.7 billion, a reduction of \$3 billion or 27 per cent. By next year, we will have reduced that deficit to \$6.6 billion, a reduction of more than 40 per cent. We will keep on that downward trend until the deficit is eliminated by the end of the fiscal year 2000-01.

So, I am pleased to report that the economic and fiscal plan that this government has put in place is on track.

We have over-achieved our fiscal target for last year by almost \$600 million.



1995-96 Fiscal Performance
\$ millions

	Fiscal Plan	Actual	Change
Revenue	46,786	48,359	1,573
Expense			
Programs	43,713	44,005	292
Restructuring and Other Charges	—	1,352	1,352
Total Program Expense	43,713	45,357	1,644
Capital	3,412	3,473	61
Public Debt Interest	8,969	8,255	(714)
Total Expense	56,094	57,085	991
Deficit	9,308	8,726	(582)

With improved economic performance, I would expect that we will not need to use the \$650 million reserve set aside in the 1996 Budget for this year unless some unanticipated risk, such as an economic downturn, occurs to require its use. We need to stay vigilant in our management of the Province's budget. However, just as last year, with improving economic performance, I fully expect that we will exceed our 1996-97 budget target.

Our 5-year Balanced Budget plan is already producing dividends

- 127,000 net new jobs since June, 1995
- improved economic performance, including lower interest rates
- lower interest rates compared to the U.S., due, in part to more responsible fiscal policy across Canada
- renewed confidence on the part of consumers and investors
- over-achievement of fiscal targets and flexibility to make key reinvestments in services of critical importance to all Ontarians.

According to the Conference Board of Canada, consumer confidence in Ontario has risen by 19.2 per cent so far this year.

Nationally, business confidence held steady in the third quarter, with 53 per cent of respondents citing Ontario as the most desirable province for investment.

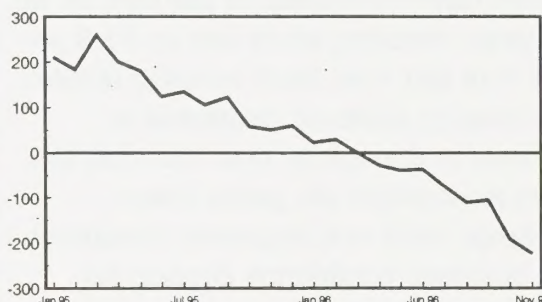
For example, businesses in Ontario are planning to increase plant and equipment spending by 11.9 per cent in 1996.

1996-97 Fiscal Performance			
\$ millions			
	Budget Plan	Current Outlook*	In-Year Change
Revenue	46,660	46,685	25
Expense			
Programs	41,841	41,899	58
Restructuring Fund	900	900	—
Total Program Expense	42,741	42,799	58
Capital	2,704	2,689	(15)
Public Debt Interest	8,745	8,720	(25)
Total Expense	54,190	54,208	18
Reserve	650	650	—
Deficit	8,180	8,173	(7)

* Second Quarter Ontario Finances.

Spread Between 3 Month Government of Canada Treasury Bills and U.S. Treasuries

Spread* in Basis Points



* Difference between Canadian and U.S. rates.

Since June, 1995 127,000 net new jobs have been created in Ontario. Close to 60 per cent of all jobs created in Canada over this period were created in Ontario. Prudent and cautious projections suggest the creation of between 200,000 and 300,000 net new jobs over the next two years. We fully expect that the Ontario economy will again outperform our cautious projections and exceed these levels of job creation.

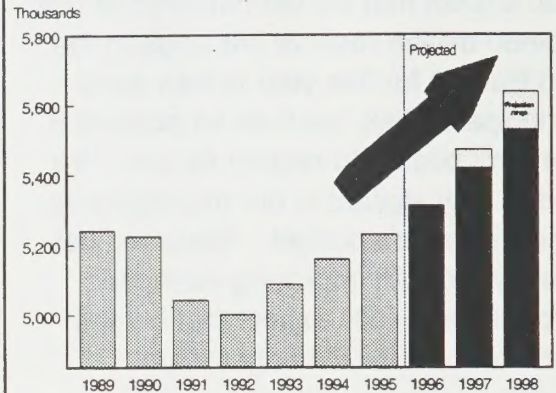
Lower interest rates are another indicator of domestic and international confidence in the economic and fiscal policies being pursued in this country. The prime lending rate is at its lowest level since 1956. Five-year mortgage rates are at their lowest level since 1965. Housing resales have increased 24 per cent so far this year. Housing starts are up 21.6 per cent from last year. Both housing resales and housing starts are expected to continue to strengthen over the next few years as stronger job gains, lower mortgage rates and improved consumer and business confidence support an increase in activity.

Cutting Taxes and Creating Jobs

Providing Ontarians with well deserved tax relief is a key part of our job creation strategy.

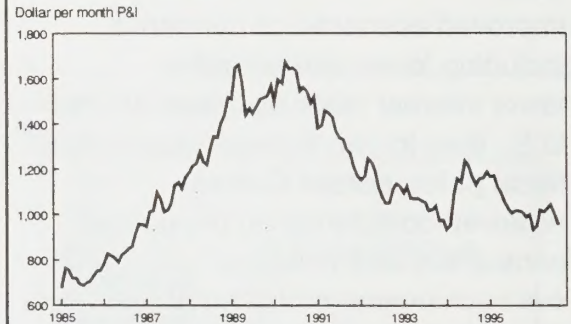
It is leaving more money in Ontarians pockets now. By leaving more money in Ontarians pockets now and laying out a real plan to continue to cut taxes, we are restoring confidence about the future. This will encourage people to buy what they need and want for themselves and their families.

Ontario employment



Sources: Statistics Canada and Ontario Ministry of Finance

Typical mortgage carrying costs for an average price Ontario home



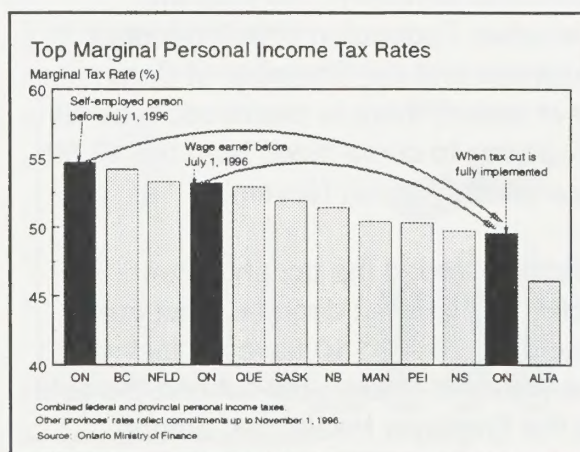
Conventional 75 per cent 5-year mortgage
Source: Ontario Ministry of Finance.

Lower taxes are also creating the incentives for businesses to invest in Ontario and for entrepreneurs to start up new businesses. For people to take the risks of building or expanding businesses, they need to see the potential rewards of their efforts. Our plan for competitive tax rates will make this happen.

A competitive tax system is also critical to attract those with specialized skills to companies in Ontario. These are the people and companies that can help Ontario compete throughout the world. Their success means jobs and growth not just for the companies themselves, but for their suppliers and related companies in Ontario and across the country.

On January 1, 1997, Ontarian's take-home pay will go up again as the second stage of the tax cut announced in the 1996 Budget comes into effect. Fully half of the promised 30 per cent personal income tax cut will have been delivered, as promised. This will mark the second time in six months that Ontario taxpayers will see an increase in their take-home pay.

By 1999, we will have reduced Ontario's personal income tax rate by 30.2 per cent. For many with modest incomes, the tax cut will be even larger. Ninety-one per cent of all taxpayers will receive a tax cut of 30 per cent or more. With these changes, 10,000 more Ontarians with low incomes will have their Ontario income taxes entirely eliminated and more than 1.1 million Ontarians will benefit from the Ontario Tax Reduction.



And, the top marginal tax rate in Ontario will be reduced to 49.6 cents on each dollar earned, the second lowest in Canada.

These changes all mean more money for people to spend or invest, more incentives for initiative and growth and a more competitive tax system - and that means jobs.

Our agenda to create jobs through tax cuts is not limited to cutting personal income taxes. Everyone agrees that payroll taxes kill jobs - we are doing something about it. As of January 1, we will cut the employer health tax for all businesses. This will create jobs. When fully implemented, it will mean that 88 per cent of private sector Ontario employers no longer have to pay this payroll tax.

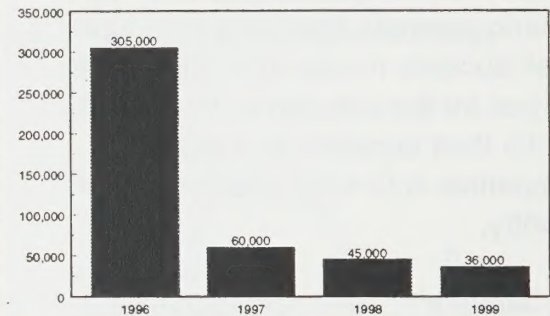
This fall, the government kept its commitment to cut the average Workers' Compensation premium payroll tax by 5 per cent.

However, the federal Employment Insurance payroll tax is being maintained at a level far higher than is needed to support benefits and provide for a future economic downturn. As both the Canadian Federation of Independent Business and the Chamber of Commerce have stated, there is clearly room for EI premiums to come down from the \$2.90 rate announced on November 19.

We have ended the tax and spend policies of the last decade. Last year's Budget contained 10 tax cuts, including the personal income tax cut and the cuts to the Employer Health tax, among

Private-Sector Employers Required to Pay the Employer Health Tax, Ontario

Number of EHT Filers



Source: Ontario Ministry of Finance

Ontario's Ten Tax Cuts

- Personal Income Tax Rate Cut
- Employer Health Tax Exemption
- EHT Elimination for Self Employed
- Race Tracks Tax Rate Cut
- RST Exemption for Call Centres
- RST Exemption on Farm Building Materials
- LTT Rebate for First-time New Homebuyers
- Film and Television Tax Credit
- Co-operative Education Tax Credit
- Paralleling Federal CIT Reductions

others. We have exempted call centres from Retail Sales Tax. Since the Budget, IBM has opened a 1,000 job call centre in North York and S&P Data opened a new 300-job call centre in North Bay. Canada Trust, CIBC Insurance and TD Bank are among others expanding their call centres.

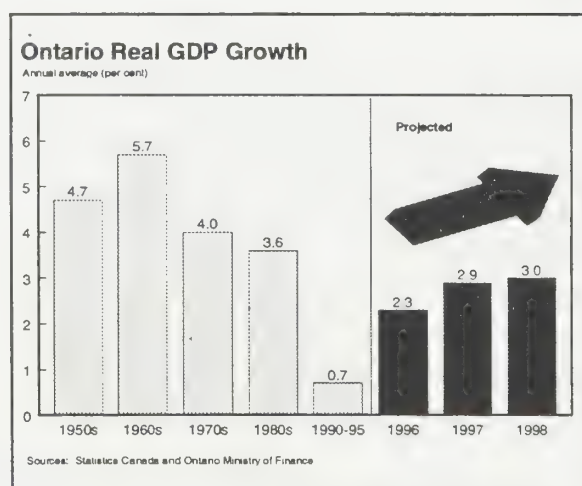
We have also provided a rebate of retail sales tax on building materials available to Ontario's more than 60,000 farmers, through the end of this fiscal year. We have provided an incentive for first-time home buyers purchasing newly constructed homes, in the form of a rebate of the Land Transfer Tax, through March 31, 1997.

Other tax measures include the introduction of the Ontario Film and Television Tax Credit, the Co-operative Education Tax Credit, a reduction in the Race Tracks Tax and, by 1999, the elimination of the Employer Health tax on the self-employed. We have also paralleled a number of federal corporate tax budget changes that result in tax reductions.

In the 1997 Budget, I will announce the next steps in implementing the continuing reduction in personal income taxes.

Ontario's Economy is Responding to our Plan

Ontario's economy is showing solid progress. In the 1996 Budget, we expected real economic growth of 1.9 per cent in 1996. As I indicated earlier, our current outlook is for 2.3 per cent growth this year, increasing to 2.9 per cent in 1997 and 3.0 per cent in 1998.



Lower taxes, more jobs and increased wages will lead to stronger growth in disposable income and consumer spending. In stark contrast to the reductions in real disposable income experienced during the early 1990's, real disposable income is expected to rise by 2.3 per cent in 1997. This should lead to a 2.5 per cent rise in consumer spending.

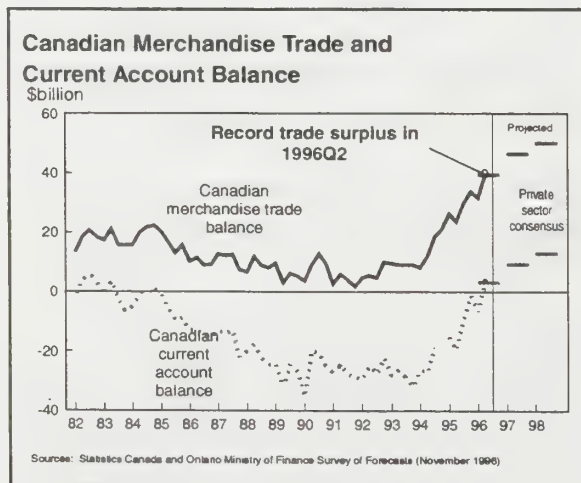
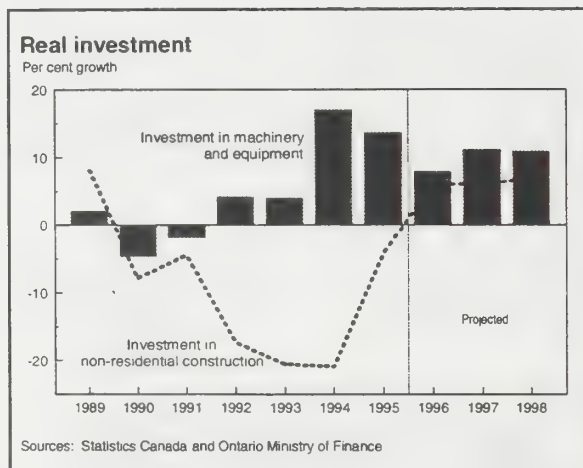
Investment spending is expected to rise sharply as business confidence is restored. Ontario's machinery and equipment investment is expected to grow by 10.0 per cent per year, on average, over the 1996-98 period.

Non-residential construction will also expand rapidly, rising at an average annual rate of 6.3 per cent over the 1996 to 1998 period, a significant turnaround following 6 years of decline.

Ontario accounts for close to 60 per cent of Canadian manufactured exports. With a much improved competitive position, Ontario exporters are expected to continue to gain market share in foreign markets. Exports are projected to rise by an average 4.8 per cent over the 1996 to 1998 period.

Export growth has produced a record trade surplus, and, in the second quarter of 1996 eliminated Canada's current account deficit. Ontario's strong competitive position has made a major contribution.

Further details on the economic outlook are contained in Ontario's 1996 Economic Outlook and Fiscal Review.



Staying the Course

We are implementing changes that will make government work better for the people of Ontario. We will continue our efforts to identify additional savings over the next several months through the Budget preparation and ministry business planning process. These savings will not only assure achievement of our balanced budget target - they will permit significant and substantial reinvestment in improving health care, education and other services that Ontarians have told us are priorities.

We are working toward completion of the process of finding savings in the government's own operations and programs. These programs are currently being reviewed and decisions will be announced by the responsible ministers following completion of the ministry business planning process directed by my colleague Dave Johnson, Chair of Management Board.

Local Governments

The Who Does What panel, chaired by David Crombie, is expected to release the complete set of its recommendations early in December. The wide-ranging reforms to the organization, management, and financing of local services being examined are directed at increasing accountability, eliminating overlap and duplication, improving quality of services and enhancing value for the taxpayers' money.

In my November 1995 Fiscal and Economic Statement, I announced a two-year funding commitment for grants to municipalities.

LOCAL GOVERNMENT REFORMS WILL:

- Increase accountability
- Eliminate overlap and duplication
- Improve quality of services
- Enhance value for taxpayers' money

Schools

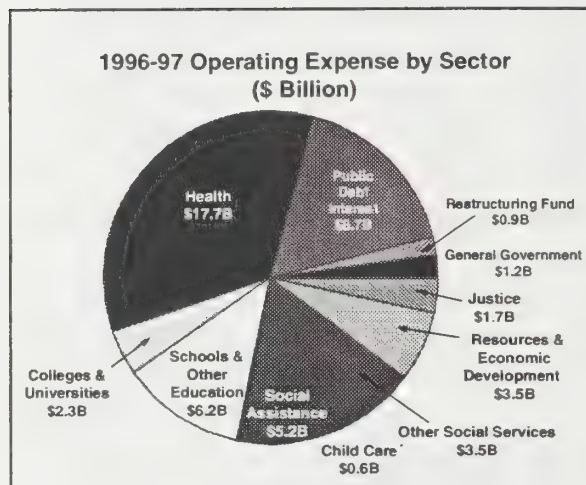
For years, education spending in Ontario has been increased without ensuring that money was directed where it was needed most—to educating students in the classroom. The Sweeney Report found that as much as 47 cents out of every dollar was spent outside the classroom. We have made it our priority to focus spending on students in the classroom.

The Minister of Education and Training has already announced a number of measures to improve the quality of education in Ontario classrooms. We are implementing a demanding curriculum, setting clear standards for students to meet, and using province-wide testing to measure student achievement against those standards.

A new funding model is being designed for our education system to make it fair and more accountable to taxpayers. The Minister is also reviewing the issue of school governance and he will be making a comprehensive announcement on restructuring and funding in the school sector.

Colleges and Universities

The knowledge and skills of Ontario's labour force are a key economic strength of the province and are qualities on which our program of jobs and growth will build. Our colleges and universities play a critical role in providing the education, skills and research needed in a competitive economy.



The Advisory Panel on Future Directions for Post-secondary Education is studying the future of our post-secondary institutions and is expected to report by December 15. The Minister of Education and Training will announce funding levels for colleges and universities shortly thereafter.

Initiatives introduced in the 1996 Budget will continue to assist the post-secondary sector.

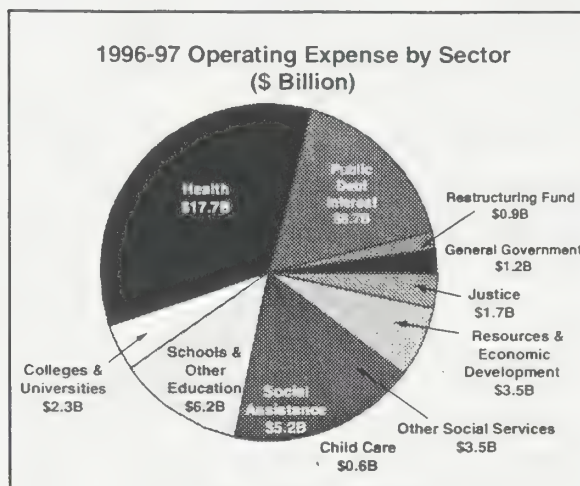
The Co-operative Education Tax Credit will help promote co-op programs across the province. Ontario Student Opportunity Trust Funds will assist qualified students who need support to take advantage of the opportunities offered by our post-secondary system. This initiative has been an outstanding success.

Universities and colleges are on track to achieve their targets of raising nearly \$100 million from companies and individuals. The Province will match any donations to these trust funds made before March 31, 1997.

Hospitals

I want every person, every patient and every parent in Ontario to know that this government is committed to funding the health care services we all need. Before we were elected, we promised to keep health care spending at no less than \$17.4 billion.

We have kept our promise, we are keeping our promise and we will continue to keep our promise. In 1996-97 we



have allocated \$17.7 billion to health care.

In my November, 1995, Fiscal and Economic Statement, I announced a three year funding envelope for hospitals.

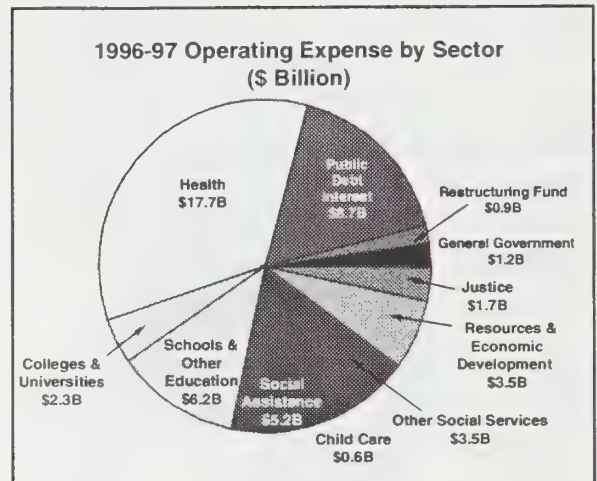
We recognize that restructuring to improve the quality of health care will require major reinvestment. We are committed to making the necessary investments. In the coming days and weeks my colleague the Honourable Jim Wilson, Minister of Health, will announce reinvestments in health care in Thunder Bay, Sudbury and other communities.

As part of our commitment to maintaining the health system, we have already made significant new investments. More people of all ages will receive higher levels of care in their homes through the reinvestment of \$170 million into community-based long term care.

An additional 80,000 seniors and people with disabilities will receive services such as nursing, therapy, homemaking and meal programs through this support and reinvestment, which will also create some 4,400 full-time front-line positions for nurses and other health care providers in communities across the province.

We have increased funding for cardiac care to enable cardiac surgeons to perform 1,500, or 19 per cent, more operations than they did in 1995-96.

We have earmarked \$15.5 million for additional training for Ontario's paramedics.



In order to help correct the physician shortages in Northern and rural Ontario, we are increasing the funding for Northern medical schools, funding a rural training program at the University of Western Ontario and paying higher weekend wages to doctors working in emergency wards in underserved areas.

We are also establishing 30 more examination centres for early detection of breast cancer through the reinvestment of \$24 million. We are equipping communities across the province with modern diagnostic technology in the form of 23 additional Magnetic Resonance Imaging (MRI) units. We have made 275 new drugs available to seniors and welfare recipients.

We are reinvesting \$23.5 million to enhance community-based mental health services, to ensure that services are in place in the community before any more changes are made to in-patient services delivered by psychiatric hospitals.

We are reinvesting \$25 million to expand dialysis services, improve access to care and provide treatment for more patients with chronic kidney failure. Since complications from diabetes are a major cause of kidney failure, we have also introduced programs that raise awareness about diabetes and how to reduce its incidence.

We have also reinvested \$25 million in hospitals, mostly in the Greater Toronto Area, that are coping with the most intense population pressures in Ontario.

To date, the Minister of Health has made almost 40 major reinvestment announcements, with many more to come.

Ontario's Strong Economy, Creating Jobs

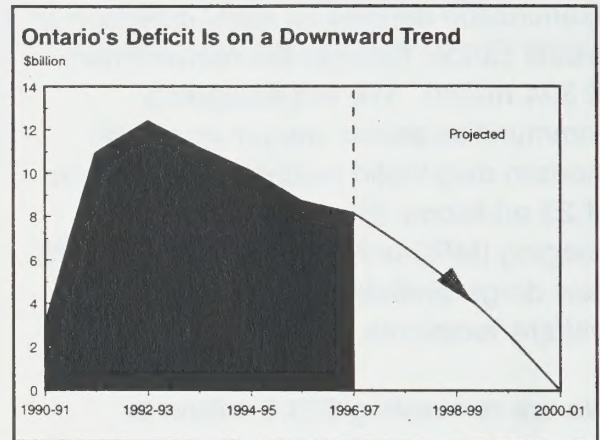
It has been a year and a half since the people of this province asked us to restore their vision of Ontario as a place of prosperity and opportunity.

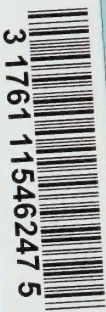
Today, Ontario's economy is regaining strength. Jobs are being created in increasing numbers. Interest rates are down and consumer and business confidence is up. Businesses are adding new employees, purchasing machinery and equipment and expanding and locating in Ontario. We are meeting our targets towards a balanced budget.

Today, more Ontarians are buying homes, finding new jobs and investing in the future.

The people of Ontario want to know that tomorrow will be better than today—for themselves, and for their children.

And, today, Ontarians have more reasons to look to that future with confidence and optimism.





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